COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019 AND 2018

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KraftCPAs PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Officers and Trustees
Country Music Foundation, Inc. and Subsidiary
Nashville, Tennessee

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Country Music Foundation, Inc. and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Country Music Foundation, Inc. and Subsidiary as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
April 24, 2020

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COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents	$ 19,117,885	$ 11,246,603
Trade accounts receivable and other, net of allowance of $96,670 in 2019 and $75,133 in 2018	421,134	1,331,769
Prepaid expenses and other	319,138	189,545
Inventories	1,750,906	1,959,513
Contributions and grants receivable, net of allowance of $46,878 in 2019 and $77,028 in 2018	2,397,996	2,740,759
Restricted cash	52,609	52,993
Investments	17,887,126	15,401,848
Investment in Food on Fifth, LLC	276,740	244,288
Property, equipment and exhibits	68,249,064	70,939,659
Collection items - Note 2	-	-
General library	1,170,292	1,153,498
TOTAL ASSETS	$ 111,642,890	$ 105,260,475

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts payable and accrued expenses	$ 2,281,050	$ 2,552,136
Deferred revenue and customer deposits	1,656,377	1,345,891
Note payable, net of unamortized loan costs of $56,498 in 2019 and $80,711 in 2018	543,502	594,289
Bonds payable	500,000	1,000,000
Capital lease obligation	16,767,781	16,789,613
TOTAL LIABILITIES	21,748,710	22,281,929
NET ASSETS		
Net assets without donor restrictions	84,002,958	77,209,301
Net assets with donor restrictions	5,891,222	5,769,245
TOTAL NET ASSETS	89,894,180	82,978,546
TOTAL LIABILITIES AND NET ASSETS	$ 111,642,890	$ 105,260,475

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Admission fees	$ 20,078,042	$ 18,444,641
Museum store and other merchandise sales	7,637,561	6,896,852
Event revenue	6,247,079	5,456,536
Contributions, grants and memberships	1,234,199	2,276,110
Special fundraising events	371,471	272,340
Restaurant and catering revenue	8,902,956	8,087,856
Investment income	576,335	162,432
Other revenues	1,341,341	1,332,186
In-kind donations	158,105	248,930
Loss on disposal of property, equipment and exhibits	(25,709)	-
Total support and revenue without donor restrictions	46,521,380	43,177,883
Release of donor restrictions	1,191,989	1,677,923
TOTAL SUPPORT AND REVENUE	47,713,369	44,855,806
EXPENSES		
Program services	28,948,476	28,294,773
Cost of museum store and other merchandise sales	3,300,113	2,968,973
Cost of restaurant, catering and event sales	4,156,489	3,719,621
Management and general	2,940,394	2,708,122
Fundraising	1,574,240	1,376,344
TOTAL EXPENSES	40,919,712	39,067,833
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	6,793,657	5,787,973
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	534,872	833,569
Investment gains (loss)	779,094	(115,166)
Release of donor restrictions	(1,191,989)	(1,677,923)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	121,977	(959,520)
INCREASE IN NET ASSETS	6,915,634	4,828,453
NET ASSETS - BEGINNING OF YEAR	82,978,546	78,150,093
NET ASSETS - END OF YEAR	$ 89,894,180	$ 82,978,546

See accompanying notes to consolidated financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
		SUPPORTING SERVICES				SUPPORTING SERVICES		
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL FUNCTIONAL EXPENSES	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL FUNCTIONAL EXPENSES
Salaries, wages, and employee benefits	$ 14,651,262	$ 1,831,602	$ 928,453	$ 17,411,317	$ 13,302,066	$ 1,557,204	$ 747,598	$ 15,606,868
Cost of museum store and other merchandise sales	3,300,113	-	-	3,300,113	2,968,973	-	-	2,968,973
Cost of restaurant, catering and event sales	4,156,489	-	-	4,156,489	3,719,621	-	-	3,719,621
Housekeeping and security contracts	887,441	79,675	29,008	996,124	854,070	76,679	27,917	958,666
General, administrative, and credit card fees	2,900,037	201,058	76,646	3,177,741	2,685,720	190,491	71,816	2,948,027
Occupancy	2,097,267	188,294	68,554	2,354,115	2,163,937	194,280	70,734	2,428,951
Advertising	2,080,886	186,823	68,019	2,335,728	2,164,452	194,326	70,754	2,429,532
Interest, depreciation and amortization	4,676,341	419,845	152,858	5,249,044	4,579,446	411,145	149,691	5,140,282
Exhibit, museum services, and education expenses	1,029,761	-	-	1,029,761	1,102,347	-	-	1,102,347
Grants and fundraising expenses	378,725	-	242,636	621,361	297,857	-	210,448	508,305
Miscellaneous	246,756	33,097	8,066	287,919	1,144,878	83,997	27,389	1,256,264
TOTAL FUNCTIONAL EXPENSES	$ 36,405,078	$ 2,940,394	$ 1,574,240	$ 40,919,712	$ 34,983,367	$ 2,708,122	$ 1,376,347	$ 39,067,836

See accompanying notes to the financial statements.

COUNTRY MUSIC FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,915,634	$ 4,828,453
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,875,103	4,720,537
Contributions restricted for long-term purposes	(534,872)	(833,569)
Earnings on investment in Food on Fifth, LLC	(32,452)	151,998
Amortization of financing costs	24,213	33,302
Loss on disposal of property, equipment and exhibits	25,709	-
Unrealized and realized gain (loss) on investments, net	(775,076)	118,441
(Increase) decrease in:		
Trade accounts receivable and other	910,635	(540,795)
Contributions and grants receivable	(314,354)	(354,440)
Inventories	208,607	(397,538)
Prepaid expenses and other	(129,593)	133,426
Increase (decrease) in:		
Accounts payable and accrued expenses	(271,086)	650,196
Deferred revenue and customer deposits	310,486	64,385
TOTAL ADJUSTMENTS	4,297,320	3,745,943
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,212,954	8,574,396
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and exhibits	(2,210,217)	(2,060,058)
Purchase of general library collection items	(16,794)	(15,481)
Proceeds from sale of investments	162,342	132,136
Purchase of investments	(1,872,544)	(3,323,852)
NET CASH USED IN INVESTING ACTIVITIES	(3,937,213)	(5,267,255)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(575,000)	(775,000)
(Payment) accretion of capital lease obligation	(21,832)	52,183
Collection of contributions restricted for long-term purposes	1,191,989	1,676,778
NET CASH PROVIDED BY FINANCING ACTIVITIES	595,157	953,961
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	7,870,898	4,261,102
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	11,299,596	7,038,494
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 19,170,494	$ 11,299,596
OTHER CASH FLOW DISCLOSURES		
Interest expense paid during the year	$ 349,728	$ 386,443
Income taxes paid	$ 223,649	$ 326,088

See accompanying notes to consolidated financial statements.

NOTE 1 - GENERAL

Founded in 1967, The Country Music Foundation, Inc. (“CMF”), which does business as the Country Music Hall of Fame and Museum (the “Museum”), is a not-for-profit educational institution that preserves and interprets the evolving history and traditions of country music. Functioning as a national history museum and as an international arts organization with over 1.2 million annual visitors, the Museum safeguards a diverse artifact and archival collection comprised of moving images on film; video and digital formats; photographs; sound recordings; oral history interviews; stage costumes; musical instruments; posters; printed materials; objects illustrating the lives and careers of musicians, industry figures and the culture of country music. Through 12 annual exhibits, the Museum interprets its collection with support of the more than 1,200 annual educational programs.

CMF formed a single-member LLC, known as Hall of Fame Grill & Catering, LLC d/b/a Two Twenty-Two Grill & Catering (“222”) to operate the restaurant in the Museum which is provided as a convenience to museum patrons. 222 also provides catering services for museum events. CMF and 222 are collectively referred to as the “Foundation.”

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation’s management and the Board of Officers and Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor/grantor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor/grantor restrictions are perpetual in nature, whereby the donor/grantor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor/grantor restrictions. When a restriction expires, net assets are reclassified from net assets with donor/grantor restrictions to net assets without donor/grantor restrictions in the statements of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenues are recognized when control of products or services is transferred to customers, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those products and services. The Foundation does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year.

For performance obligations related to admission fees, museum store and other merchandise sales, event revenue, and restaurant and catering revenue, control transfer to the customer at a point in time. Revenues received prior to the date control transfers is recorded as deferred revenue. If the merchandise is shipped to a customer, the Foundation transfers control when the item is shipped and records revenue for the sale upon shipment to the customer. Total revenue recorded based on performance obligations satisfied at a point in time was $42,865,638 and $38,885,885 for the years ended December 31, 2019 and 2018.

The nature of the Foundation's business does not give rise to variable consideration or contract assets or liabilities.

Contributions and Support

Contributions, including unconditional promises to give, are recognized as revenue in the period received.

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of asset transferred or a right of release of a promisor's obligation to transfer assets exist. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date the donor's commitment or gift. Contributions receivable are recorded at the estimated present value, net of an allowance for uncollectible amounts.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (continued)

The Foundation receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

The Foundation reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or require specialized skills that were performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Donated services are recognized at fair value as support and expense in the period the services are performed. Such services are recognized at fair value as contributions and expense in the period the services are performed. Other individuals volunteer their time and perform a variety of tasks that assist the Foundation with program services and fundraising events. No amounts have been reflected in the consolidated financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to be all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The cash and cash equivalents held in the investment accounts are reported with investments.

Trade Accounts Receivable

Trade accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Foundation may charge interest on past due accounts. Management estimates for uncollectible accounts through a provision for bad debts. The provision is adjusted annually based upon an assessment of the current balances. Once management determines an account is not collectible, it is written off against the provision.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.50% - 2.50% in 2019 and 2018). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value using an average cost method.

Property, Equipment and Exhibits

The Foundation capitalizes all expenditures for property and equipment over $5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Substantially all of the building and improvement assets are depreciated using the straight-line method over an estimated life of forty years. Costs of exhibits for display are capitalized and depreciated on a straight-line basis over estimated service lives ranging from two to twenty years. The remaining assets are depreciated using the straight-line method over a five- to ten-year estimated life.

Collection Items

The Foundation's collections are made up principally of recordings, books, films and periodicals that are held for educational and curatorial purposes. These items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. In accordance with the provisions of GAAP, the Foundation does not capitalize donated artifacts or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The estimated fair value of the artifacts donated in 2019 is $943,738 ($460,683 in 2018).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Library

The General Library's permanent collection is composed of purchased recordings, films, video tapes, DVDs, books, etc. which have historical value and are presumed to appreciate with the passage of time. Accordingly, these assets are not depreciated.

Fair Value Measurements

The Foundation classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

Money market accounts, equities and mutual funds: Valued based on quoted market prices on the last business day of the reporting period.

Fixed income securities: Securities for which quotations are readily available in active markets valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

Convertible debentures: Valued based on the underlying securities quoted market prices as well as changes in interest rates and the credit rating of the issuer.

There have been no changes in the valuation methodologies used at December 31, 2019 and 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of money market accounts, treasury bills, corporate and municipal bonds, convertible debentures, mutual funds and equities. Money market accounts are carried at cash value plus accrued interest. Certificates of deposit are reported at cost, plus any accrued interest. All other investments are carried at fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Investment in Food on Fifth, LLC

The Foundation owns a 40% membership interest in Food on Fifth, LLC (“FOF”) which was invested on November 25, 2014 and March 12, 2015 at $300,000 and $100,000, respectively. As part of the membership agreement, the Foundation leases a portion of its premises to FOF in exchange for 10% of net sales, which will decrease to 8% of net sales once the Foundation has received an amount equal to the initial investment amount of $400,000 from 2% of net sales. This investment is accounted for using the equity method of accounting. Accordingly, the investment is recorded at acquisition cost plus the Foundation’s equity in the undistributed earnings or losses of FOF.

LGW, LLC (“LGW”), the controlling member of FOF with a 60% membership interest, entered into an Intellectual Property Agreement with FOF. If LGW licenses a third party to use the intellectual property of FOF in connection with the operation of a restaurant, LGW will pay FOF a fee of 10% of net franchise revenue. Should LGW use the intellectual property in connection with the operation of a restaurant, LGW will pay FOF 2% of net sales.

Endowment Fund

The Foundation has a donor-restricted Endowment Fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation’s donor-imposed restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and the State of Tennessee’s State Uniform Prudent Management of Institutional Funds Act (“SUPMIFA”).

Interpretation of applicable law: The Board of Officers and Trustees has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

Spending policy: The Foundation has a policy which limits the spending to 5% of the average Fund market value for the preceding three years ending December 31 of the most recent calendar year. The spending amount resulting from this calculation is considered by the Board of Officers and Trustees on an as needed basis and distributions may be made throughout the year at such intervals as may be specified by the Board.

Investment return objective, risk parameters and strategies: The Foundation has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable. The goal of the investment program is providing funds that grow in value and provide a source of income primarily for the support of operating and program costs. Investment objectives are as follows:

- Enhance the financial stability of the Foundation.
- Provide a reasonably predictable source of income to the Foundation.
- The primary investment objective of the Endowment Fund is to attain an average annual real total return, net of all fees and non-qualified distributions, of 5.0 percent annualized. A secondary objective of the Fund is to earn a relative total return equal to or greater than a composite of market indices weighted between equities and fixed income in proportion to the Fund’s weightings.
- The Fund is diversified in marketable securities. As a general rule, no single security should represent more than 10% of the Fund’s assets (not applicable to U.S. Government and Agency issues), except that, if a contribution is made to the Fund of a security that represents in excess of 10%, the investment manager will advise the Investment Committee of its outlook for the security and recommend an appropriate period over which it will be diversified to the 10% threshold.
- The Fund may invest in domestic and international equities, preferred and convertible issues, investment grade fixed income securities and ETFs (Exchange Traded Funds), and, in order to limit risk, may sell call options against securities owned.
- The Fund has no defined targets regarding asset allocation between equities and fixed income securities, but the Investment Committee may establish an appropriate asset allocation range within which the investment manager will be expected to conform. The investment manager presents its strategy for achieving the Fund’s objectives to the Investment Committee at least annually and communicates any substantive shifts in strategy to the Committee chairman in a timely manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund (continued)

The Foundation recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. The Foundation's prospects for the future, current financial condition, and level of funding suggest collectively some interim fluctuations in market value rates of return may be tolerated in order to achieve longer-term objectives.

Advertising

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising costs were approximately $2,335,728 in 2019 and $2,430,000 in 2018.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

The Foundation files a U.S. Federal Form 990 for organizations exempt from income tax and a U.S. Federal Form 990-T for organizations exempt from income tax with unrelated business income. Income tax expense relates to operations that result in unrelated business income. In addition, the Foundation files an income tax return in the State of Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Expense	Method of Allocation
Salaries, wages, and employee benefits	Time and effort
Cost of museum store and other merchandise sales	Direct costs
Cost of restaurant, catering and event sales	Direct costs
Housekeeping and security contracts	Time and effort
General, administrative, and credit card fees	Time and effort
Occupancy	Square footage
Advertising	Time and effort
Interest and depreciation	Square footage
Exhibit, museum services, and education expense	Time and effort
Grants and fundraising expenses	Time and effort
Miscellaneous	Time and effort

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842)*: *Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Foundation expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2021, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Foundation expects to elect all the practical expedients available.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the consolidated activities or changes in net assets as previously reported.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2019 and April 24, 2020, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in GAAP. The ASU requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the new standard effective January 1, 2019, the first day of the Foundation's fiscal year using the modified retrospective approach.

As part of the adoption of the ASU, the Foundation elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The adoption of this ASU did not have a significant impact on the Foundation’s financial statements. Most the Foundation’s revenue is recognized at a point in time. Based on the Foundation’s evaluation process and review of its contracts, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported amounts as a result of the adoption.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash (a consensus of the FASB Emerging Issue Task Force)*. ASU 2016-18 provides guidance on the presentation of restricted cash in the statement of cash flows. The Foundation adopted the new standard effective January 1, 2019. The statements of cash flows have been updated to conform with the presentation requirements as of December 31, 2019 and 2018.

NOTE 4 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	$ 19,117,885	$ 11,246,603
Accounts receivable and other, net of allowance	421,134	1,331,769
Contributions and grants receivable, net of allowance	2,397,996	2,740,759
Investments	17,887,126	15,401,848
Endowment spending-rate distribution and appropriations	162,181	161,181
Total financial assets	39,986,322	30,882,160
Less amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions	(5,891,222)	(5,769,245)
Financial assets available to meet general expenditures over the next twelve months	$ 34,095,100	$ 25,112,915

Included in amounts restricted by donor with time or purpose restrictions is the Foundation's endowment fund. Income from the donor-restricted endowment fund is subject to an annual spending rate of 5 percent as described in Note 1. Donor-restricted endowment funds are not available for general expenditure.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation's goal is generally to maintain available financial assets to meet approximately 180 days of operating expenses at any time. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, certificates of deposit or treasury securities. The Foundation also has a $7,000,000 line of credit with a bank available to meet cash flow needs, if necessary.

NOTE 5 - RESTRICTED CASH

The Foundation also held cash restricted by donors of $52,609 and $52,993 for certain projects at December 31, 2019 and 2018, respectively.

NOTE 6 - CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following at December 31:

	2019	2018
Receivable in less than one year	$ 1,268,111	$ 951,698
Receivable in one to five years	1,210,669	1,925,795
Total unconditional promises to give	2,478,780	2,877,493
Less allowance for uncollectible pledges	(46,878)	(77,028)
Less discounts to net present value	(33,906)	(59,706)
Contributions and grants receivable	$ 2,397,996	$ 2,740,759

NOTE 7 - INVENTORIES

Inventories consist of the following at December 31:

	2019	2018
Museum stores	$ 1,304,202	$ 1,529,671
Grill and catering	143,479	107,880
Hatch Retail and Haley Gallery	374,916	405,962
	1,822,597	2,043,513
Less valuation allowance	(71,691)	(84,000)
	$ 1,750,906	$ 1,959,513

NOTE 8 - PROPERTY, EQUIPMENT AND EXHIBITS

Property, equipment and exhibits consist of the following at December 31:

	2019	2018
Land	$ 3,926,300	$ 3,926,300
Building and improvements	83,739,524	83,287,919
Furniture, fixtures and equipment	11,586,667	10,199,304
Exhibits	13,189,369	13,062,592
Vehicles	63,064	150,714
	112,504,924	110,626,829
Less accumulated depreciation	(44,255,860)	(39,687,170)
	$ 68,249,064	$ 70,939,659

NOTE 9 - CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments and various contribution and grant receivables. Contributions and grants receivable consist of individual, organization and corporate contribution pledges. At December 31, 2019, contributions receivable from one source totaled approximately $791,000, or 33% of total contributions and grants receivable. At December 31, 2018, receivables from one source totaled approximately $1,194,000, or 44% of total contributions and grants receivable.

The Foundation maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Foundation's cash balances may, at times, exceed statutory limits. The Foundation has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The custodians of the Foundation's securities are covered by the Securities Investor Protection Corporation ("SIPC") which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to $500,000 per broker/dealer custodian, including up to $250,000 in cash. The SIPC does not insure against market risk.

NOTE 10 - INVESTMENTS

Investments consisted of the following at December 31:

	2019	2018
Endowment investments:		
Money market accounts	$ 201,396	$ 76,814
Fixed income securities	361,775	469,059
Equities	3,153,698	2,552,265
Total endowment investments	3,716,869	3,098,138
Other investments:		
Fixed income securities	14,170,257	12,303,710
Total	$ 17,887,126	$ 15,401,848

Investment income is categorized as follows in the consolidated statements of activities for the years ended December 31:

	2019	2018
Without donor restrictions	$ 576,335	$ 162,432
With donor restrictions	779,094	(115,166)
	$ 1,355,429	$ 47,266

NOTE 11 - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	$ 201,396	$ -	$ -	$ 201,396
Equities:				
Consumer staples	373,773	-	-	373,773
Healthcare	521,515	-	-	521,515
Consumer discretionary	295,234	-	-	295,234
Information technology	701,392	-	-	701,392
Industrial	392,670	-	-	392,670
Energy	194,673	-	-	194,673
Telecommunications	308,588	-	-	308,588
Real estate investment trusts	52,140	-	-	52,140
Financials	313,713	-	-	313,713
Fixed income securities:				
Treasury bill	-	14,170,257	-	14,170,257
Corporate bonds	-	361,775	-	361,775
Total Investments	$ 3,355,094	$ 14,532,032	$ -	$ 17,887,126

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	$ 76,814	$ -	$ -	$ 76,814
Equities:				
Consumer staples	321,026	-	-	321,026
Healthcare	424,148	-	-	424,148
Consumer discretionary	302,294	-	-	302,294
Information technology	473,275	-	-	473,275
Industrial	317,734	-	-	317,734
Energy	132,270	-	-	132,270
Telecommunications	259,508	-	-	259,508
Utilities	-	-	-	-
Real estate investment trusts	71,320	-	-	71,320
Financials	250,690	-	-	250,690
Fixed income securities:				
Treasury bill	-	12,303,710	-	12,303,710
Corporate bonds	-	469,059	-	469,059
Municipal bonds	-	-	-	-
Convertible debentures	-	-	-	-
Total Investments	$ 2,629,079	$ 12,772,769	$ -	$ 15,401,848

The Foundation estimates that the fair value of all financial instruments at December 31, 2019 and 2018 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Foundation would realize in a current market exchange.

NOTE 12 - ENDOWMENT FUND

A summary of the endowment activity is as follows for December 31, 2019:

	Assets Without Donor Restrictions	Assets With Donor Restrictions	Total
Endowment net assets, January 1, 2019	$ -	$ 3,122,145	$ 3,122,145
Interest and dividend income	-	82,963	82,963
Management fees	-	(22,959)	(22,959)
Amounts appropriated for operations	-	(162,333)	(162,333)
Realized and unrealized gains on investments	-	715,063	715,063
Endowment net assets, December 31, 2019	$ -	$ 3,734,879	$ 3,734,879

Contributions to the endowment net assets includes $18,000 in pledges receivable at December 31, 2019.

A summary of the endowment activity is as follows for December 31, 2018:

	Assets Without Donor Restrictions	Assets With Donor Restrictions	Total
Endowment net assets, January 1, 2018	$ -	$ 3,372,722	$ 3,372,722
Interest and dividend income	-	98,294	98,294
Management fees	-	(22,973)	(22,973)
Amounts appropriated for operations	-	(131,756)	(131,756)
Realized and unrealized gains on investments	-	(194,142)	(194,142)
Endowment net assets, December 31, 2018	$ -	$ 3,122,145	$ 3,122,145

Contributions to the endowment net assets includes $24,000 in pledge receivable at December 31, 2018.

NOTE 13 - LONG-TERM DEBT

During 2010, the Foundation refinanced the 1999 Series Bonds by issuing $23,035,000 in Industrial Revenue Bonds through the Industrial Development Board of the Metropolitan Government of Nashville, Tennessee. The Foundation refinanced those bonds again on April 30, 2015. The balance refinanced was $19,535,000 with interest on the bonds payable monthly at a fixed rate of 3.33%. The bonds are to be redeemed in two payments each year on July 1 and December 1 with final maturity on May 1, 2025. The bonds are secured by a deed of trust on certain real estate and are subject to a credit and guaranty agreement between the Foundation and the bondholder. The Foundation has made prepayments on the bonds and the next required payment is due May 1, 2025. Principal outstanding on the bonds at December 31, 2019 and 2018 was $500,000 and $1,000,000, respectively.

Loan costs incurred are presented in the balance sheet as a direct reduction of the carrying amount of the debt liability. Loan costs are amortized on a straight-line basis over the term of the loans. Amortization expense amounted to $24,213 and $33,302 for the years ended December 31, 2019 and 2018, respectively.

The agreement contains certain loan covenants, the most stringent of which require the Foundation to meet certain debt coverage requirements and liquidity requirements. The Foundation is in compliance for the years ended December 31, 2019 and 2018.

The Foundation obtained an uncollaterized and interest free loan for $750,000 dated December 19, 2017. Payments of $75,000 are due on or before January 5 each calendar year beginning in 2018 until January 2028. Principal outstanding on the loan at December 31, 2019 and 2018 was $600,000 and $675,000, respectively

Interest expense related to long-term debt for the years ended December 31, 2019 and 2018 was $21,560 and $59,260, respectively.

As of December 31, 2019, annual principal maturities of all long-term debt agreements are as follows:

Year Ending December 31:	
2020	$ 75,000
2021	75,000
2022	75,000
2023	75,000
2024	75,000
Thereafter	725,000
	$ 1,100,000

NOTE 14 - LINE OF CREDIT

In October 2018, the Foundation entered a $7,000,000 line of credit with a bank that matures October 5, 2021. The line bears interest at a variable rate of LIBOR plus 1.25%. The line of credit is secured by substantially all the Foundation's assets, excluding artifacts. There was no outstanding balance on the line as of December 31, 2019.

NOTE 15 - CAPITAL LEASE OBLIGATION

On December 30, 2010, the Foundation entered into a Development, Lease and Operating agreement with the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County (the "Authority"). As part of this agreement, the Authority entered into a Development Agreement with Omni Nashville, LLC (the "Omni") to build a connector (the "expansion project") between the Foundation and the Omni with funding from a tax increment financing arrangement provided by the Metropolitan Development and Housing Agency. The Foundation paid for the build out of the expansion project and the Authority paid for construction of the building shell. Upon completion of construction, the expansion project property was transferred to the Authority.

During 2014, the land upon which the expansion project rests was deeded to the Foundation by the Industrial Development Board through the Master Condominium Declaration and is leased to the Authority under a ground lease agreement. The consideration under the ground lease agreement does not require cash payments, however it does require the parties to abide by the Development, Lease and Operating agreement. The carrying amount of the land on the Foundation's consolidated statements of financial position as of December 31, 2019 and 2018 is $3,097,400.

On June 20, 2014, the Foundation entered into a capital lease for the expansion project under a sixty-year lease with the Authority. The Foundation will pay annual rent of $250,000 from 2014-2018, $350,000 from 2019-2023, $500,000 from 2024-2063, $650,000 from 2064-2068 and $750,000 from 2069-2073. The Foundation is responsible for all interior and exterior operating costs, maintenance and repairs. As part of the agreement, the Authority and the Foundation will place a portion of the rent into an escrow account held by the Authority (the "Reserve Fund") in the amount of $200,000 per year until the Reserve Fund reaches $1,000,000. The Reserve Fund may be accessed during the term of the lease once the Reserve Fund reaches $250,000 for the maintenance and repair of the building expansion. The funds shall be disbursed upon remittance of a budget by the Foundation for necessary expenditures and approval by the Authority. Beginning in 2035, the Reserve Fund shall be increased to $1,500,000 with annual deposits increasing to $250,000 per year. During the year ended December 31, 2019, the Foundation received disbursements totaling $209,752 from the Reserve Fund for qualifying expenditures ($206,647 during the year ended December 31, 2018). This amount is included in other revenues in the consolidated statements of activities.

NOTE 15 - CAPITAL LEASE OBLIGATION (CONTINUED)

The Foundation will have the right and option to purchase the expansion project upon the expiration of the lease for a purchase price of $750,000.

Future minimum lease payments under the capital lease obligation as of December 31, 2019 is as follows:

For the year ending December 31,	
2020	$ 350,000
2021	350,000
2022	350,000
2023	350,000
2024	500,000
Thereafter	26,494,436
	28,394,436
Less: imputed interest at 1.938%	(11,626,655)
Net minimum lease payments	$ 16,767,781

Assets under the capital lease have been capitalized and have the following book value as of December 31:

	2019	2018
Building and improvements	$ 16,505,134	$ 16,505,134
Less accumulated depreciation	(2,475,773)	(2,063,144)
	$ 14,029,361	$ 14,441,990

Depreciation expense for these assets was $412,629 in 2019 and 2018.

NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Time restricted contributions receivable	$ 981,821	$ 1,451,177
Endowment corpus	2,265,500	2,265,500
Endowment income	1,477,061	856,645
Restricted for future operations or expansion	1,166,840	1,195,923
	$ 5,891,222	$ 5,769,245

NOTE 16 - PROFIT-SHARING RETIREMENT PLAN

The Foundation sponsors a 401(k) profit-sharing retirement plan. Substantially all employees are eligible to participate in the plan and are eligible for company match after completing one year of employment and 1,000 hours worked with the Foundation. The Foundation makes contributions to the plan equal to 50% of employee contributions up to 3% of the eligible participant's salaries. Related expense amounted to $185,719 and $158,490 in 2019 and 2018, respectively.

NOTE 17 - ARCHIVAL PERMANENT ENDOWMENT FUND

In December 2010, a donor established a $2,500,000 fund with the Community Foundation of Middle Tennessee for the benefit of the Foundation. The fund, called the Archival Permanent Endowment Fund, was fully funded in February 2015 and began providing 5% guarantee minimum annual income distributions in 2016. Distributions made to the Foundation from the fund amounted to $134,300 and $136,100 for the years ended December 31, 2019 and 2018, respectively. The Community Foundation of Middle Tennessee has the ultimate authority and control over these funds and, therefore, these investments are not included in the financial statements of the Foundation. Income distributed from this fund is recognized by the Foundation when it is received.

NOTE 18 - SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel and forced closures for certain type of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets in the United States. Effective March 13, 2020, the Foundation has discontinued operation at the museum, including closing the restaurants and cancellations of events that were scheduled at the museum. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Foundation expects this matter to negatively impact its operating results. The total financial impact and duration cannot be reasonably estimated at this time.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act provides an economic relief package to many businesses in the US as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act establishes the Paycheck Protection Program (PPP), which is implemented by the Small Business Administration, and is intended to provide small businesses and certain nonprofit organizations (generally those with 500 or less employees) with funds to pay payroll costs and benefits, interest on mortgages, rent and utilities. The funds are available in the form of a loan which is fully forgivable under certain conditions. Funds that do not meet the forgiveness provisions will be repaid at a rate of 1.0% interest over a 24 month period. In April 2020, the Foundation was approved for a PPP loan of approximately $3,200,000, and received the funds on April 23, 2020. As of the date these consolidated financial statements were available to be issued, the amount of loan forgiveness has not been determined.